



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Accountability Audit Report**

# **Town of Pe Ell**

**Lewis County**

**For the period January 1, 2013 through December 31, 2013**

**Published December 29, 2014**

**Report No. 1013349**





## Washington State Auditor Troy Kelley

December 29, 2014

Mayor and Town Council  
Town of Pe Ell  
Pe Ell, Washington

### Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Town operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the Town's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY  
STATE AUDITOR

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## AUDIT SUMMARY

### Results in brief

In most areas we audited, Town operations complied with applicable requirements, state laws, regulations and its own policies and procedures. However, the Town did not provide adequate safeguarding of public resources.

We identified the following areas in which the Town could make improvements.

We recommended the Town establish formal policies and procedures over all aspects of cash receipting, payroll and general disbursements. These policies should establish internal controls to ensure funds are adequately safeguarded. The policies should also include sufficient monitoring and oversight by an independent party. We also recommended the Town perform a reconciliation of any future software conversions and maintain documentation of this process. These recommendations were included in our report as a finding.

We also noted certain matters that we communicated to Town management in a letter dated December 15, 2014, related to cost allocation, utility adjustments, small and attractive assets and financial condition. We appreciate the Town's commitment to resolving those matters.

### About the audit

This report contains the results of our independent accountability audit of the Town of Pe Ell from January 1, 2013 through December 31, 2013.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the Town's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance.

The following areas were examined during this audit period:

- Open public meetings
- General revenue and expenditures
- Financial condition
- Cash receipting
- Cost allocation
- Payroll
- Disbursements
- Software conversion
- Small and attractive assets
- Utility billing

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **1. The Town should establish adequate internal controls over its financial operations, to avoid the risk of misappropriation.**

#### *Description of Condition*

Despite prior audit recommendations, the Town continues to have systemic internal control weaknesses over its financial operations. Specifically, the Town lacks adequate internal controls, policies and procedures related to cash receipting, payroll, general disbursements and its key accounting software.

#### *Cash Receipting*

We made recommendations in the prior audit relating to the lack of internal controls over the Town's cash receipts. The Town implemented some of the recommendations; however we noted the following issues continue to exist:

- The Town's policy still does not address the cash receipting locations, use of pre-numbered receipts, change fund amounts, replenishment procedures, safeguarding of funds and procedures for voids.
- Two instances where a receipt was changed from a check payment to a cash payment. The changes were to correct errors made when the funds were receipted.
- Three of 10 deposits tested totaling \$7,905.18 were not deposited timely in accordance with State law.

#### *Payroll*

The Town's payroll policy does not specify how payroll disbursements are authorized, approved and reviewed. During our audit work, we identified the following issues:

- A number of overtime, sick leave and vacation forms were either not complete or not maintained.
- A number of overtime and leave forms that did not match the hours listed on employee timesheets.
- Overtime hours which were paid in contradiction to Town policy.
- Mid-month draws that were paid in contradiction to Town policy.
- One instance when hours paid did not match the hours on the employee's timesheet.

- The amount of leave shown on employee timesheets did not match the Town's leave balance tracking sheet.
- Sick leave balances were inexplicably increased from the ending balance on one month to the beginning balance on the next month.

Although, these issues did not have a significant dollar impact at this time, the risk of a more significant impact exists if internal controls and oversight are not improved.

### *General Disbursements*

The Town does not have a formal policy to support its general disbursements. During our audit, we identified the following issues:

- No invoice or receipt to support expenditures in 16 instances, totaling \$4,320.
- The Town has informal procedures which require purchase orders. A purchase order was missing in 13 instances, totaling \$3,420.
- No evidence of approval for 16 travel vouchers, totaling \$860.
- One expenditure, totaling \$150, which was made to an employee's relative for garden work without adequate documentation to support that the services were actually provided.

### *Software Conversion*

The Town did not maintain documentation for a software conversion that occurred in 2013. As a result, we were unable to confirm the data transfer was complete and accurate. We attempted to reconcile the Town's 2013 cash balances, including its deposits and payments, and determined that the amount in the Town's accounting system was understated by \$8,131 compared to bank statements. Since the Town did not maintain its software conversion information, we could not determine the cause of this difference.

### *Cause of Condition*

The Town has limited staff. One person performs all aspects of the Town's operations. Despite prior recommendations relating to the importance of independent monitoring and oversight, the Town has not made it a priority to address our concerns.

### ***Effect of Condition***

The Town does not have adequate internal controls to safeguard public resources. Without adequate internal controls, public funds are at risk for misappropriation, misuse or loss that would not be detected by management in a timely manner, if at all.

### ***Recommendation***

We recommend the Town establish formal policies and procedures over all aspects of cash receipting, payroll and general disbursements. These policies should establish internal controls to ensure funds are adequately safeguarded. The policies should also include sufficient monitoring and oversight by an independent party.

We also recommend the Town perform a reconciliation of any future software conversions and maintain documentation of this process.

### ***Town's Response***

*The Town Council will be preparing a new cash receipting policy to include cash receipting locations, change fund amount, safeguarding of funds, and procedures for voids and procedures over reconciling cash receipts however there is a policy in effect for reconciling cash receipts at this time.*

*In response to the deposits not done in accordance with Town Policy one of the deposits that is said to not be in a timely manner was done in a timely manner. There was a deposit the end of the previous month and the office being closed the first week of the month, no receipts taken in, and a deposit the following Friday. Another deposit that was said to not be timely was done according to policy. There was a deposit on the 31st and again on the 8th of the following month which is within the policy.*

*In response to the payroll issues call outs are when an employee is requested to report to work before the workday begins or are requested to return to work after leaving for the day these hours are subject to overtime. There is a new policy in place that eliminates all overtime by stating that call outs will be shift adjustments to avoid overtime.*

*Sick leave balances are going to increase due to the fact that in January each employee is given 96 hours for the year.*

*The Town Council will be preparing a formal payroll policy which will address part-time worker paydays, how sick leave is given and the use of leave request.*



*The Town Council considered oversight and monitoring a priority after the last audit and approved an Internal Control Policy in 2013 which related to oversight and monitoring of the daily activities of the Town operations by an independent party.*

*It is the intention of the Town Council to adopt formal policies as requested by the State Auditor's Office in the next year.*

### ***Auditor's Remarks***

We appreciate the Town's response and recognize that the Town is committed to ongoing quality improvement and working to improve its procedures; however we continue to emphasize that the Town ensure it deposits timely. We are aware that the office was closed for a week in September 2013 and determined the Town was in compliance with depositing requirements in that instance. However, in the other three instances funds were held for seven to nine working days before being deposited. State law requires funds to be deposited at least once per week.

We wish to thank the Town's staff and management for their cooperation and assistance during our audit. We look forward to working with the Town on these issues and will follow up on them during the next audit.

### ***Applicable Laws and Regulations***

RCW 43.09.200 Local government accounting-Uniform system of accounting states in part:

The state auditor shall formulate prescribe and install a system of accounting and reporting for all local governments which shall be uniform for every public institution and every public office and every public account of the same class. The system shall exhibit true accounts and detailed statements of funds collected received and expended for account of the public for any purpose whatever and by all public officers employees or other persons.

The accounts shall show the receipt use and disposition of all public property and the income if any derived there from all sources of public income and the amounts due and received from each source all receipts vouchers and other documents kept or required to be kept necessary to isolate and prove that validity of every transaction all statements and reports made or required to be made for the internal administration of the office to which they pertain and all reports published or required to be published for the information of the people regarding any and all details of the financial administration of public affairs.

Volume 1, Part 3, Chapter 1 of the 2014 *Budgeting, Accounting and Reporting System* (BARS) manual (3.1.3.10 - 3.1.3.30), issued by the State Auditor's Office pursuant to RCW 43.09.230, states in part:

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as "management" throughout the rest of this section.

RCW 43.09.240 Local government accounting - Public officers and employees - Duty to account and report - Removal from office - Deposit of collections states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once every twenty-four consecutive hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible as long as the treasurer has received a written request from the department, district, or agency, and where the department, district, or agency certifies that the money is held with proper

safekeeping and that the entity carries out proper theft protection to reduce risk of loss of funds. Exceptions granted by the treasurer shall state the frequency with which deposits are required as long as no exception exceeds a time period greater than one deposit per week.

## STATUS OF PRIOR AUDIT FINDINGS

The status of findings contained in the prior years' audit reports of the Town of Pe Ell is provided below:

**1. The Town needs to establish adequate internal controls over utility billing, cash receipting and depositing, to avoid the risk of misappropriation**

Report No. 1010431, dated August 29, 2013

***Background***

During the prior audit, we issued a finding regarding the Town's utility billing and cash receipting. We noted that the Town lacked adequate segregation of duties or compensating monitoring controls over their cash receipting process, increasing its risk of loss or misappropriation and the likelihood that neither would be detected in a timely manner, if at all.

***Status***

This issue has not been resolved. We will repeat the audit finding.

## INFORMATION ABOUT THE TOWN

The Town of Pe Ell, incorporated in 1906, serves approximately 634 citizens in Lewis County. The Town and its four employees provide a range of services, either directly or through contract, including police, water and sewer, street maintenance, business licenses and general administrative services.

An elected, five-member Council and an independently elected Mayor govern the Town. For fiscal year 2013, the Town operated on a budget of approximately \$1.2 million.

### Contact information related to this report

Address:	Town of Pe Ell 111 S. Main P.O. Box 215 Pe Ell, WA 98572-0215
Contact:	Jeanette Schwartz, Clerk-Treasurer
Telephone:	(360) 291-3543

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the Town of Pe Ell at <http://portal.sao.wa.gov/ReportSearch>.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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